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SECURITY INFORMATION

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29 April 1952

Attention : Chief, OPC
Chief, Collection and Dissemination Branch
Chief, S/TF

IP-274 "Trade and Finances in the Far East"

Reference : Your reference

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1. The currency situation in three Far Eastern areas: North Korea, Communist China and the DRV (Democratic Republic of Vietnam):

a. Amounts of currency in circulation within each of the three areas, with an indication of past and probable future changes in the amount outstanding and in the velocity of circulation.

(1) The amount of currency in circulation in North Korea and the DRV is unknown, and without access to clearing house and/or bank statements, or other indicators, an estimate of velocity is impossible. Some sources report a "scarcity" of currency in both of these areas, a symptom of inflation, but it is also likely that as inflationary pressures have increased, more currency is being or will be issued, and as a corollary to Gresham's law quickly depreciating currencies turn over rapidly.

(2) As to Communist China, there are extant several intelligence reports which would warrant a current estimate of currency in circulation as between, say, JMP 30,000 billion and JMP 100,000 billion, equivalent (at the official rate) of US \$1.4 to \$4.5 billion. The latter estimate, which is not supported by other sources, is based on a calculation from figures supplied by a Nationalist official who estimated that Communist currency in circulation had increased by 63.5% between late 1950 and August 1951 following Chinese intervention in Korea. Based on a more credible

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and other source reports which give new emissions at JMP 2,250 billion³ from 1 July to 1 December 1950 and JMP 6,412 billion⁴ in 1951, the current circulation may be estimated in the neighborhood of JMP 30,000 billion. Another source⁵ indicates that the equivalent of US \$321,000,000 (about JMP 7,000 billion) was issued for 1951. This approximates the deficit (10 to 15%) in the planned budget for 1951, and is therefore not unreasonable, but it is somewhat more than the 1951 estimate used to derive current circulation at around JMP 30,000 billion. However, available information supports the lower rather than the higher estimate.

(3) Other than as just indicated, there is no information on which to estimate a trend in currency outstanding. Evidence does show that following early 1950 the exchange "value" of the currency had been fairly stabilized, which supports the probabi-

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Office Memorandum • UNITED STATES GOVERNMENT

TO : Chief, OPC
 Attention: Chief, Collection & Dissemination Branch
 FROM : Chief, S/TF 25X1A

25X1A DATE: 29 April 1952

SUBJECT: IP-274, "Trade and Finances in the Far East"

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Reference : Your Reference

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1. This Project, referred to S/TF by D/R, has been the subject of informal discussions between S/TF and [redacted] of your office, and [redacted] is aware of the fact that much of the information requested in your memorandum of February 7 is unobtainable on short notice, and if obtainable at all only through personal contact with individuals who have some current knowledge of conditions in the three Far Eastern Communist areas or countries under reference, Communist China, North Korea and the DRV.

2. We anticipate some results from further inquiries being made along these lines, and will supply you with such facts as are obtainable. In the meantime, we are handing to you on a quite informal basis, the rather marginal intelligence currently available.

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 Attachments

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lity that from then until the Korean intervention there had been no extraordinary increase in currency outstanding. In the early days of Communist control, local and provincial currencies were withdrawn from circulation for exchange to JMP, but except for an indeterminate amount of Northeast (Manchuria) and Inner Mongolian notes, exchanged in April 1951, and Sinkiang silver dollar notes, exchanged in October 1951, this operation had been largely completed prior to 1950, when outstanding issue was estimated at JMP 22,000 billion. The latter exchanges would have absorbed an unknown part of the estimated JMP 6,400 billion issued in 1951.

(4) In December 1948, the largest note denomination was JMP 200, but by January 1950, when the official exchange rate for US dollars had been raised from 3,000 to 21,000, JMP 10,000 notes were in circulation.^{5/} The issuance of JMP 50,000 notes, and possibly JMP 100,000 notes, in early 1951^{7/} reflects some further currency expansion, or inflation. One reporter (of unknown reliability) notes a black market rate for the currency at 47,000 in December, 1950, against 24,000 in January, 1950.^{8/} Although of doubtful validity, a subsequent report^{2/} states that a proposal to issue notes in denominations of JMP 500,000 and JMP 1,000,000 was rejected on the grounds that this would result in economic collapse (sic). In any event, the authorities have succeeded in bringing about a degree of price and currency stabilization (the black market exchange rate was reported at 38,000 in December, 1951), and without an increase in real GNP there is nothing to suggest a further substantial increase in circulation.

b. Official and black market rates of exchange of the three currencies for US and Hong Kong dollars in the following areas: Hong Kong, Canton, Shanghai, Tientsin, Mukden, Harbin, Ch'ang-ch'un, Singapore, Rangoon, Manila.

(1) Official rates of exchange of the JMP:

In Peking

	Buying	Selling	Date
Hong Kong \$(TT) ^{1/}	JMP 3,880	JMP 3,920	Oct-Nov 1951
Hong Kong \$ note ^{1/}	3,490	3,530	Oct-Nov 1951
United States \$(TT) ^{2/}	22,270	22,490	May 23-Nov 1951
United States \$ note ^{2/}	20,040	20,240	Oct-Nov 1951
Philippine peso ^{2/}	5,670	5,730	May 23, 1951

In Tientsin^{3/}

	Buying	Selling	Date
United States \$ note	JMP 20,227	JMP 20,249	February 1952
Malayan SS \$	7,033	7,041	
Burmese rupee	4,007	4,074	
Philippine peso	5,067	5,073	

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In Shanghai^{4/}

United States \$(TT)	22,890	December, 1951
United States \$note	20,800	

In Hong Kong^{5/}

	<u>Official</u>	<u>Open</u>
	(Average market rate for Feb., 1952)	
Canton, DD		JMP 4,310
JMP		4,525
United States \$(TT)	HK \$5.81	HK \$ 6.74
United States \$ note		HK \$ 6.73

(2) Available official rates of exchange of the North Korean won^{6/} (as used by the Chinnampo Customs Service):

		<u>Date</u>
Hong Kong \$	45 won	1949-1950
United States \$	315 won	1949-1950
Soviet ruble	4 won	1949-1950

(3) Exchange rates of the DRV piaster: 25X1X

(a)

the November rate for the Viet Bac Intersector at 25 DRV piasters to the BIC piaster, and for the Intersector III as 20 DRV piasters to the BIC piaster.^{7/}

reports a rate of 50 DRV piasters to the BIC piaster in 1951.^{8/} It is not possible otherwise to evaluate these two reports.

(4) Black market rates:

In Canton

Hong Kong ^{9/}	JMP 5,000	November, 1951
Hong Kong ^{10/}	JMP 6,000	Summer, 1951

In Shanghai

United States ^{11/}	JMP 38,500	December, 1951
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In Burma

Burmese rupee ^{12/}	JMP 7,000	October, 1951
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c. Denominations in which each currency is printed and those denominations which are most widely circulated:

(1) Communist China^{1/}

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50,000; (possibly) 160,000.

(2) DRV

Piaster notes: 1; 5; 10; 20; 50.^{2/}

One source reports note issues from 1 to 500 piasters.^{3/} As almost all commodities cost more than 100 piasters,^{4/} it is likely that piaster notes have been issued up to 500.

(3) North Korea

10 cent, 20 cent, and 50 cent coins are mainly for payment of taxes, utilities rates, etc., for they are too small to be of use in the purchase of ordinary commodities.^{2/} Other denominations are not known.

In none of the areas is it known which denominations are most widely circulated.

d. Extent of circulation of each currency outside the country of origin:

(1) Because no currency is allowed to circulate in non-Communist countries, circulation of currency outside the country of origin is very limited. The new currency of the DRV (June 1951) was issued partly to enable the DRV to overcome difficulties arising out of its shortage of foreign exchange and was thus to be acceptable in China and the Soviet orbit.^{1/} However, a recent report refers to Communist China's prohibition of the importation or the circulation in Kwangsi of all currency issued either by the National Bank of the DRV or the Banque de L'Indochine after 1 December 1951.^{2/}

(2) The JMP is probably used by the Chinese volunteers in Korea and may be circulated in North Korea.

(3) The currencies of these Communist countries have little or no value outside the orbit, and even within the orbit foreign currencies are more sought.

e. Peculiarities of markings or serial numbers which may be applicable to a province or region:

(1) In remote mountainous districts of Northwest China the silver dollar is still permitted to circulate because a language barrier limits the use of notes printed in Chinese.^{1/} Currency notes in Sinkiang are printed in the Uighur language, because of the prominence of Uighurs there, but these notes are also valid in other parts of China.^{2/} [REDACTED] all Chinese Communist currency is printed in Peking under Government control.^{3/}

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f. Regulations of each country governing import and export of currency or specie:

(1) Communist China

(a) By official decree, 6 March 1951, circulation of all foreign currency within Communist China was banned.^{1/} The JKP cannot be taken out of the country, but foreigners leaving the country are permitted to carry out 50 US dollars, 2 ounces of gold and 20 ounces of silver.^{2/}

(2) The DRV

(a) BIC piasters are apparently desirable as foreign exchange, being used to purchase goods from the Viet Nam area.^{3/} However, the "international" movement of the BIC piasters are under the strict control of the DRV.

(3) North Korea

(a) ROK note circulation in North Korea is banned.^{4/}

g. Media in which imports are paid for within each country:

(1) In all areas, specie, foreign currencies and foreign exchange instruments are used to finance imports. However, barter transactions under trade agreements or contracts are the major method for the financing of trade. Obviously, domestic currencies are not wanted in foreign trade.

(2) In the DRV, BIC piasters have been an important media in trade with free Vietnam.

(3) The foreign exchange regulations in Communist China require that all foreign exchange, including that earned from exports, be handed in to or sold to the Bank of China, which acts as the foreign exchange agent of the People's Bank, or to the so-called "appointed banks" for account of the Bank of China. Following a practice instituted by the Nationalist regime, the Communist Bank undertook to provide foreign exchange for imports by issuing to the exporters, who had sold exchange to the government bank, "certificates" to be traded to those importers holding import licenses. Although Chinese Nationals were not permitted to own unlicensed foreign exchange, the regulations also included a provision that importers could use "their own foreign exchange holdings"^{1/} to finance imports.

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2. Purchasing power, price trends and public attitudes towards currency, inflationary trends, and financial pressures:

a. Commodity prices in Communist China, as reflected in price indices published by Chinese Communist authorities, rose significantly from late 1949 to March 1950.^{1/} Prices then leveled off and remained fairly stable, rising only moderately through 1951. From August 1950 to July 1951, the Shanghai wholesale commodity price index rose only 50 points - or about 5% - from 840 to 888.^{2/} The North China wholesale commodity price index remained stable throughout most of 1951, following a jump in November 1950.^{3/} The average index for the seven cities covered shows a 15% rise between 31 December 1950^{4/} and October 1951, which the Communists point to proudly as an indication of stability. Food prices rose 11.4% while cotton, yarn and cloth rose 23%.

b. The various purchasing power "parity units" have exhibited similar trends: a rapid increase to early 1950, followed by a leveling off.^{2/} There is no good information on the current status of "parity unit" bank deposits vs. currency deposits, but we have it from one good source^{6/} that by the Fall of 1951, when the Communist currency had held its purchasing power for several months practically unchanged, that the trend was toward currency deposits rather than parity unit deposits. In the figures for deposits quoted below, we must assume that JMP totals include "parity units" in terms of JMP. The official JMP rate for US dollars likewise depreciated from JMP 21,000 in January to JMP 37,000 in June 1950,^{7/} and then appreciated rapidly to approximately JMP 22,000 by March 1951. The official rate has since remained unchanged.^{8/}

c. Import prices, on the other hand, have increased greatly, but this is taken as the result of world market price increases and increased costs arising from the West's trade restrictions.^{2/}

d. That the trend toward stabilization of the economy, as shown by the foregoing, was due in no small degree to controls and official "manipulation" is a foregone conclusion, but that it has been accomplished with a fiat currency and in the face of inflationary pressures renders it the more remarkable. Bank deposits have increased sharply, but how much of this was due to consolidation of old (by 1949 - also fiat) currencies, how much to the limitations on "cash" allowed to be held by the public, and how much to pure inflation of deposit currency is not clear. As in any currency system, volume has also followed the value of money: on 1 November 1949, for instance, total deposits of government and non-government banks were reported^{16/} with black market equivalents in parenthesis, at JMP 80 billion (US \$10 million) and in July 1951 at JMP 880 billion (US \$25 million). The eleven-fold increase was actually nearer two and a half times, which under the circumstances is not remarkable. Of these deposits 50% were government-owned, and only 10% held by private banks. In the earlier days of the Communist regime, deposits jumped rapidly, the People's Bank in Hupei (Tientsin)

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claiming an increase of 800% from early 1950 to November 1950,^{11/} and throughout Communist-controlled China similar increases were reported.^{12/}

e. Private holdings of JMP are restricted to JMP 1 million and holding of ornamental gold is limited to 5 ounces. All excess holdings must be sold to the government banks^{13/}. These accumulations, and any other savings, are then tapped by taxation, donation campaigns, and other "projects." The need for funds to meet taxes and other forced payments resulted in the dumping of all kinds of goods on the market. Disharding became general and with controls hampering free currency circulation, anything like "confidence" in the JMP became quite academic. Fear of the government, liquidation of businesses, and bankruptcies minimized hoarding and speculation in silver, gold or foreign currencies, but evidently the instinct remained and recently black markets have reappeared. In this market,^{14/} the US dollar rate is nearly double the official rate.

f. Public attitudes in a police state are impossible to determine, but there are contradictory reports of the farmer and the laborer being better off than ever before. Historically on a subsistence level, the Chinese peasant is less affected by inflation and the disappearance of one currency after another than populations generally, and if he can swap his produce for the few other things he needs doubtless he is no worse off than in recent years.

g. The public has to react passively to the financial pressures put upon it: taxes, bond sales, donation campaigns, business regulations that strangle free enterprise, and outright confiscation. The Communist authorities have pressed these measures ruthlessly, and from all accounts the Chinese have shouldered the burden without too much resistance. Sometimes the peasant farmer resisted by reducing output, but this does not seem to have been widespread. He has had to eat. Such banditry and rural opposition as has been reported now appears largely under control.

h. We have practically no good information on North Korea and the DRV. One source in Pyongyang reports that prices were approximately 7 times greater in April 1951 than in June 1950,^{15/} reflecting the effects of the war, but in the circumstances such reports are quite meaningless. If they follow usual Communist practice, probably both North Korea and the DRV have endeavored to stabilize prices, as in China, and doubtless "public attitudes" are tempered by the bayonet.

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3. Supplementary to the information desired in #1 and #2, specific intelligence is required on China's trade in the Far East with reference to the following questions:

a. What cities are the main centers of China's external trade in the Far East?

(1) Since 1951, Canton has become the major port handling China's trade. Tientsin (and Taku Bar) and Dairen are less important ports where contact with the West is concerned, but the latter is now a center for Soviet orbit trade. Shanghai is no longer predominant in China's trade.

b. What are China's main imports from the Far East?

(1) Communist China's main imports from the Far East have been rubber from Malaya, Indonesia and Ceylon, and raw cotton from Pakistan. Rubber imports were drastically reduced (with the exception of a 5,000 ton shipment from Ceylon in October 1951, and smaller shipments in 1952*), when Western trade restrictions were adopted in the Spring of 1951. Imports of Japanese textiles are becoming more important in China's trade. Iron and steel products, valued at US \$14 million in 1950, were sharply reduced in 1951. Imports of jute and gunny bags, bicycles, etc. in 1951 were of secondary importance. Hong Kong has been excluded from the attached tables because of the difficulty of separating trade transshipped through Hong Kong to China from total trade of Hong Kong, but products transshipped from the Far East through Hong Kong are generally similar to those shipped direct to Communist China. Petroleum does not appear in these trade statistics, but has been smuggled from Southeast Asia in considerable quantities.

c. What exports provide China's means of payments for imports:

(1) Communist China's exports to the Far East are more diversified than her imports. Exports consist of foodstuffs, raw materials of vegetable origin such as soybeans, oils, silk, cotton, ramie, raw drugs and medicines, and some textiles.

d. The foreign exchange position of Communist China:

(1) Communist China's trade for 1950 and 1951 has been estimated as follows:

* - C. Columbo 593, 23 April 1952, reports a further 6,000 ton shipment from Ceylon in prospect.

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<u>Year</u>	<u>Soviet Orbit</u>		<u>Non-Communist Countries</u>		<u>Trade Balance</u>	
	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>	<u>Soviet-orbit</u>	<u>Non-Communist Countries</u>
	(in millions of US dollars)					
1950	111	175	414	400	+ 64	- 14
1951	1050	540	450	135	- 510	- 315

(2) To cover the 1951 import surplus with the West of approximately US \$300 million, foreign exchange reserves at the end of 1950 were augmented in 1951 by remittances from abroad, by opium and gold and silver sales, and probably by exports to the West via the SovBloc. Reserves must have been drastically reduced, a fact which is now restricting imports from the West. The present Chinese Communist policy appears to be to push the export of native produce to earn foreign exchange, but with trade almost entirely on a barter basis, and with the rapid shift to intra-Bloc trade it becomes extremely difficult to estimate possibilities for earning foreign exchange.

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Communist China's Main Imports from the Far East, 1950-1951¹

	<u>Year</u>	<u>Tonns²</u>	<u>Japan</u>	<u>Halgan</u>	<u>Pakistan³</u>
			(Millions of dollars)		
Rubber	1950 1951			18.3 32.5	
Jute	1950 1951	3.6 5.6			
Jute gunny bags	1950 1951				
Jute, raw	1950 1951				1.5 5.9
Cotton, raw	1950 1951				22.4
Iron & Steel products	1950 1951		26.3		
Bicycles & Tricycles	1950 1951		2.7 2.8		
Textiles	1950 1951		1.4 1.5		

¹ For the year 1950 and the first half of 1951.

² April-January 1951.

³ April-December 1950.

Source: Department of Commerce, OIR charts, 1950-1951.

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<u>Communist China's Main Exports to the Far East, 1950-1951¹</u>					
<u>Year</u>	<u>Taiwan²</u>	<u>Japan</u>	<u>Korea</u>	<u>Pakistan³</u>	<u>Philippines</u>
Food products	1950		11.4		
	1951		10.6		
Vegetables	1950		4.2		
	1951				
Grain and Flour	1950		2.0		
	1951		1.1		
Rice	1950	2.4			
	1951	.9			
Seeds & Huts for Oil	1950	18.1	2.1		
	1951	4.9	1.3		
Soybeans	1950	13.5	1.7		
	1951	1.2	1.0		
Peanuts, shelled	1950	3.4			
	1951	2.7			
Fung Oil & Oil Cakes	1950	1.7			
	1951	1.6			
Fertilizers:					
	1950	.8	3.8	14.0	.5
Cotton & Manufactures	1951		.8	8.8	
Hanks	1950	3.3			
	1951	1.1			
Silk & Manufactures (incl. artificial silk)	1950	.	.2	.2	
	1951	.3	.5	.1	
Chem Drugs & Medicines	1950		2.4		
	1951		1.3		

¹ For the year 1950 and the first half of 1951.² April-January 1951.³ April-December 1950

Source: Department of Commerce, OIT charts, 1950-1951.

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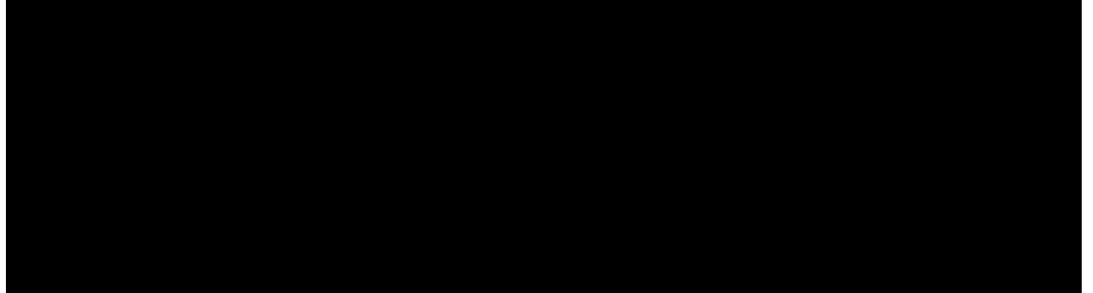
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Most of the reporting has been fairly reliable. The main exception has been reports of public attitudes towards the economic situation, in which all shades of opinion have been expressed. Statistics (on prices, exchange rates, and trade) and government regulations as publicized by the Chinese Communist authorities are fairly reliable, for they have been revealed to the public on a need-to-know basis. Gaps in statistical reporting, created by the suppression of vital statistics, limits the analytical value of the published statistics, however.

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